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Georgia. State Tax
Commissioner.

Letter from Judge John C.
Hart, state tax...

Atlanta, Ga.

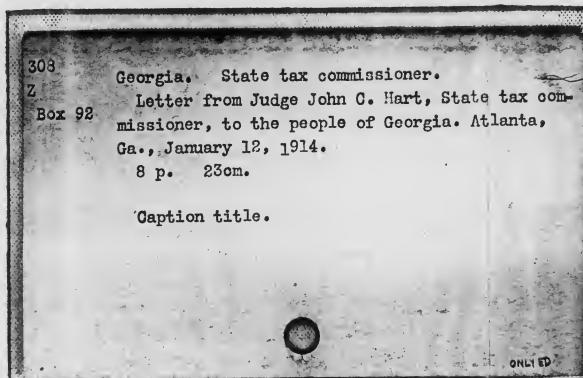
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LETTER
FROM
JUDGE JOHN C. HART,
State Tax Commissioner,
TO THE
PEOPLE OF GEORGIA.

ATLANTA, GA., JANUARY 12, 1914.

Thoughtful and patriotic Georgians naturally wish to know why the State has been running behind in its finances. This is not mere idle curiosity. Such men appreciate the fact that the State's good name is her best asset; that the people constitute the State, and that the State's honor or dishonor is theirs. The State of Georgia is in debt, on current accounts, approximately \$1,280,000.00. This debt is carried largely by the school teachers of the State; a most respectable class of Georgia citizens, but generally dependent upon their salaries for support. Many of them have been so pressed by personal obligations as to be forced to sell the State's promise to pay, to money lenders, as if the State was insolvent. Georgia is not insolvent. Georgia is rich. This fact, however, instead of palliating the State's failure to meet her obligations rather accentuates the State's delinquency.

Just and patriotic Georgians must deplore these conditions, and should be anxious to remedy them.

THE STATE'S INCOME INSUFFICIENT TO MEET APPROPRIATIONS.

The cause of the deficit in the State Treasury is due to the fact the State has appropriated more money than it had revenue.

The State appropriates to the common schools \$2,500,000. The State appropriates to Pensions, for Confederate Soldiers and their widows, \$1,180,000. The State appropriates to the various Eleemosynary Institutions, including the State Sanitarium, Georgia's greatest charity, \$640,000. The State appropriates for the payment of interest on her bonded debt and sinking fund, \$383,000. The State appropriates for all other purposes, including the administration of justice, less than one mill on the volume of property returned for taxation. The State since 1907 has been levying five mills on the dollar on the property returned, the full Constitutional limit of taxation, yet the money from taxes has not been sufficient to pay these appropriations. The State therefore,

is confronted with the proposition of cutting down appropriations or improving her system of taxation. The Legislature of 1913 concluded upon the latter course. The State has the property with which to meet her obligations if it can be placed where it properly belongs, upon the Digest for taxation.

TAXATION VITAL.

Taxation is the least understood by the people and yet the most important function exercised by Government. Whatever of progress the country has made, and whatever may be its accomplishment in the future, is essentially dependent upon a wise use of that power. The power is co-existent with government, and vital always to government. Civilization could not have wrested this country from the Indian except through the combined efforts of the white man, made potent in the form of a tax either on person or property, or both. Government today would be but short lived divested of the power to tax. Without revenue organized society would lapse rapidly into utter confusion and anarchy. No thoughtful man therefore, of this day would for a moment think government could exist without revenue.

TAXATION SHOULD BE JUST.

A tax is just when it is levied according to the ability of the taxpayer to pay, which ability is to be measured according to the value of property the taxpayer owns. The valuation, therefore, of property for taxation is scarcely less important than the scheme of taxation itself.

Justice in taxation can only be obtained when the law is just, and when justly enforced. The scheme of taxation in this State is a general ad valorem tax, that is, the State taxes all property uniformly and according to value. The rule, or more properly speaking the law, of taxation in this State is plain and just, yet if there is a misapplication of that law to the facts it leads to great inequalities and the gravest injustices.

EQUAL VALUATION LEADS TO JUSTICE AND A LOW TAX RATE AND UNEQUAL VALUATION LEADS TO INJUSTICE AND HIGH TAX RATE.

If the rule by which property is to be valued and returned for taxation is not universally observed injustice to the taxpayer is the result. As illustrative of this: We have a community of property owners, say consisting of twenty persons, each one owning a house and lot worth \$1,000; this community or jurisdiction determines to raise \$100 for civic improvement. This is to be raised by taxing the property of the community. The total value of the taxable property, as stated, actually amounts to \$20,000.00. A levy of 5 mills on each dollar will produce the necessary amount.

Each man returns his property according "to its fair market value," with the result each man pays his exact part, towit, \$5.00. Each taxpayer under the above state of facts has acted fairly, and the corollary is a low tax rate and absolute justice to all.

HALF OF THE TAXPAYERS DODGE.

But suppose that half of these taxpayers should return their property for only one-fourth of its value, that is to say, \$250.00 each, and the other half at its fair market value of \$1,000 each. This would place on the Tax Digest of that community taxable values amounting only to \$12,500, and to raise the necessary \$100.00 for civic improvement the authorities would have to levy a tax of 8 mills on the dollar. The effect of this would be, the conscientious taxpayer pays \$8.00 on his house and lot, while his neighbor, with property of like value, pays only \$2.00. The ten men owning property of equal value and receiving the same benefit from the taxes raised for civic improvement pay only one-fourth as much as the other citizens, by shifting the debt which they owe on to the shoulders of their more conscientious neighbors. The result is, the conscientious man has been penalized for doing right, while his neighbor of elastic conscience has been rewarded for doing wrong.

UNFAIR RETURN OF PROPERTY FOR TAXATION IS PRODUCTIVE OF INJUSTICE.

The new Tax Law aims to make each of these taxpayers pay exactly what he owes. If the law is enforced in this community the taxpayers who did right in their returns would be greatly relieved of the burden which they have borne. At the same time it would make their neighbors carry their own burdens. The tax rate would be reduced on the men who fairly returned their property for taxation, while it is true it would require those to pay their due who had paid less, but this is as it should be. It is no hardship or wrong done a man to have him do his duty. Taxes are levied for his benefit, and he has no legal right to shift his burden on his neighbor. This is dealing only with the money side of the transaction, but there is also involved a moral side as well, which ought not to be overlooked.

ARBITRARY RULE OF VALUATION.

But suppose this community of 20 taxpayers should all say, we will agree to return our property at an arbitrary rule of under valuation, say one-seventh of its actual value. The community would of course have no right to adopt any such rule, and it is both idle and foolish to do so. The rule however, is in fact adopted, and each man returns according to rule, and he fixes valuation under that rule, amounting to \$142.86 each. The total return of property in that community under that rule would be \$2,857.20.

The taxing jurisdiction in order to raise the \$100 necessary for civic improvement would simply raise the tax rate to 35 mills. In other words, the under-valuation has simply forced an increased tax rate from 5 to 35 mills. The taxpayer has paid out actually no more money, but he has not saved a single cent. Besides, he advertises his town as maintaining a tax rate of 35 mills on the dollar, when to have done right the tax rate would have been only 5 mills. The latter rate would have been attractive to prospective investors, while the other rate deters. The rule of under-valuation, therefore, has not helped the taxpayer but greatly depreciated the property of that community for sale, or as a basis of individual or corporate credit.

The foregoing illustrations show the inequalities and consequent injustices of the unfair return of property for taxation. Also show the absurdity of adopting any arbitrary rule for valuation of property other than the standard fixed by law.

FIXED RULE OF UNDERRVALUATION IS ESPECIALLY UNJUST.

In order to make plain the proposition that an undervaluation of property, although universally followed, may work the greatest of injustice, let us enlarge the number of taxpayers in the community we have been discussing, by adding another citizen who is in fact worth a million dollars. The town determines to levy a tax of 5 mills on the dollar for educational purposes. The 20 men mentioned as worth \$1,000 each, and the millionaire, agree to return their property at just half of its market value. The \$1,000 man swears his \$1,000 lot is worth only \$500; each of the thousand dollar men swear the same. The \$1,000,000 man swears his million dollar property is only worth \$500,000. The thousand dollar man, by thus swearing, saves \$250; the million dollar man saves \$2,500.

The 20 men therefore, by this arrangement have saved altogether \$50.00, but the community, which is made up of these men and their families, has lost the privilege of enjoying the benefits of \$2,500.00 which the million dollar man ought to have paid. In other words, these men have forfeited their right to \$2,500.00 of benefits rightfully theirs, for the privilege of wrongfully retaining in their pockets the sum of \$50.00. That is just where the rule of under-valuation leads.

THERE CAN BE BUT ONE STANDARD OF VALUATION.

There is but one standard of valuation by which property may be legally returned in this State for taxation. It comes down from the Colonial days and is found in our Constitution today. The man who returns property for taxation in this State must do so "at its fair market value," and swear that it is so returned. No other standard can be conceived of, nor by any possibility rightfully exist. The rule which has been set up in some of the

cities and in some of the counties in this State, of under-valuation, should be abolished, for the reason there is no authority in the law for such rule, but on the contrary the rule is direct violation of the law, and secondly, for the reason of the injustice and inequalities which the rule produces. So long as the practice prevails of valuing property in different localities for taxation from 10 to 100 per cent. of its true value, so long will there be gross injustice in the distribution of the tax burden. We should follow the law of fair valuation, if for no other reason than that it is the law; and because of the fact the principle involved in under-valuation is unjust, and in practice vicious. We should strive to follow the law even if it costs something to do so, but surely no one would defend an act when the act itself is wrong in principle, and involves besides financial sacrifice.

If the people of this State will, this year, return the property which is subject to taxation at its fair market value, as the law requires, the State will pay her current debt of over \$1,280,000, and the Governor and the Comptroller-General can cut the tax rate from 5 mills to $3\frac{1}{2}$ mills. This should be done, not alone because it is just and right, but because in doing so it would make the State a conspicuous example of honesty, thrift and progress.

ONLY UNE-SEVENTH OF THE PROPERTY VALUES OF THIS STATE ARE ACTUALLY TAXED.

Georgia taxes money, notes, mortgages and choses in action of every description and character, but the fact is the State falls far short of getting its taxes from this class of values.

There has come under the observation of this Department a case in which a man who was known to be a money lender and trader, shaved notes on a large scale, but when he returned his property for taxation at less than a thousand dollars an investigation was had, and the records of the Clerk of the Superior Court of the county of his residence disclosed that he had to his credit notes and mortgages, given by the farmers of that county, aggregating \$90,000.00, and in an adjoining county \$60,000.00 more was on the records there. This man worth \$150,000 paying taxes on a valuation of less than \$1,000. "And there are others."

Two instances are reported in one county in this State within the last year, where in the lifetime of the owners the combined return of their property for taxation was of the valuation of \$35,000, when, after the death of the owners the appraised value of these two estates was \$350,000. A real estate deal recently occurred in this State involving 1500 acres of land, purchased by a corporation, paying therefor \$300 per acre, and the land is actually returned for taxation at \$5.00 per acre.

The return for taxation in this State on money is less than Twenty-five million dollars, yet the Report of the State Bank

Examiner shows there was on deposit in the Banks of this State One Hundred and Seventy Million Dollars.

The return of merchandise for taxation in this State is \$41,000,000, yet the Report of the Insurance Department of this State discloses that on merchandise and houses the Insurance Companies have issued policies amounting to \$426,571,996.

The amount of property insured in this State, in volume, about equals all the real estate in the cities, all the real estate in the counties, including all the land improved and unimproved, wild and cultivated returned for taxation in the entire State of Georgia.

THE NEW LAW HAS FOR ITS OBJECT THE JUST TAXATION OF ALL PROPERTY.

No more land is being created, not an acre, yet wealth in the form of invisible securities is growing with leaps and bounds. Land is in sight always, and always will be taxed. The burden of taxation on land increases in proportion as invisible securities escape taxation. If all of the invisible property which is subject to taxation in this State was placed on the Digest, where it properly belongs, the effect of it would be to decrease the rate of taxation on land. Invisible property is escaping taxation by hiding, and a number of States in the Union have adopted the policy, because of the difficulty of placing such securities upon the tax roll, of actually, by statute, relieving it from taxation. Advocates of this doctrine are here in Georgia. This Department only recently received a letter from one of the leading brokers and money lenders of this State, boldly asserting that "invisible property" should be exempted by law from taxation, and actually defending the policy of concealment of this class of property from the tax gatherer. He says (citing a manufacturing corporation) "This corporation sold a few years ago \$450,000 first mortgage 5 per cent bonds and it goes without saying that none of these bonds were returned for taxation," giving as his reason, "it would fearfully depreciate them in price." He concluded his letter by saying, "if we would only make visible property pay the taxes we would all benefit by it." There are thousands of just such advocates. It is the landowner's fight, for which he had as well now begin to prepare, to stand for a taxing system, which insists that all property, visible and invisible, shall bear its proportionate share of the burden of taxation. The landowners above every other class of property owners should support a system of taxation designed to make effective the Constitution of this State, which declares that all property shall be subject to taxation.

TAXATION SHOULD BE AD VALOREM.

The Constitution of this State has always required, and does now require, that property shall be returned for taxation according to its value. This means its fair market value. The question is therefore pertinent, what is fair market value? This does not

alone mean what one man may be willing to give for another's property. Tested by that rule alone great injustice might result to the owner of the property. Such person willing to buy might be actuated by a personal or sentimental reason, or even by a motive not altogether worthy.

The fair market value may be more fairly defined as the current price; the general or ordinary price for which property may be bought or sold, and on a cash basis, under normal and ordinary conditions.

The County Equalizers and Assessors should therefore enter upon the discharge of their important duties in the spirit of Georgia's Motto, with Wisdom, Justice and Moderation. Three wise and potent words, but the greatest of all is Moderation, for Moderation combines *Wisdom* and *Justice*. All *reasonable* doubts which the Assessors and Equalizers entertain should be settled in favor of the taxpayer, but they can not, and ought not, to raise fanciful and capricious doubts, or supposed abnormal and unreasonable conditions to cheapen property for taxation.

TAXATION NOT ALWAYS PROPERLY CLASSED AS A BURDEN.

We speak of taxes as a burden. It is only the truth to speak of *certain* taxes as an investment. A man worth \$1,000 is not required to contribute to the State exceeding \$5.00. Five mills on the dollar is all the Constitution exacts of him. In return for this \$5.00 the State protects him and his family in the enjoyment of life, liberty and property, blessings which men have died for, believing them worth the sacrifice. Nor is this all, this man may be the father of half a dozen children, and these children the State educates from five to eight months in the year. What investment of \$5.00 has proven more remunerative?

The power to tax is the life blood of the State, but the power should be wisely used. In its *proper* use lies the hope of the Country, in its *abuse* the seeds of death. It is a crime to use the power to crush, or for the purpose of equalizing fortunes, but it is beneficent to use it for the public good, laying the taxes with regard to the ability of the people to pay them, each citizen equally and willingly bearing his burden.

THE NEW LAW SHOULD PROVE GREATLY BENEFICIAL.

The object of the law is not to increase the burden of taxation, but should greatly lighten it on that class of property owners who have been paying approximately their fair share of taxes. The law is largely designed to reach the six-sevenths of property in this State which has never been returned, or inadequately returned, for taxation. That six-sevenths of unreturned, or inadequately returned, property, is generally owned by a class of people best able to pay taxes.

The Constitution of this State taxes values, yet it is well known by every student of the subject of taxation, that in *practice* the

rich do not relatively bear their fair share of the burden of taxation. At best most taxes are shifted to "the man under." The consumer generally pays the tax. This is not to excite prejudice but is statement of a fact essential to a proper understanding of the case.

Wealth should be greatly interested in the subject of taxation, especially in Georgia, where 65 per cent of the State's total revenue is appropriated to the Cause of Education.

Property values grow as the people grow in intelligence, and property values shrink as the blighting curse of ignorance casts its shadow over the country.

THE FINANCIAL PROBLEM OF THE STATE SERIOUS.

The financial problem which confronts this State is critical and serious. The existing condition of a depleted Treasury and a tax rate strained to its limit, whereby increased appropriations are not reflected in the tax rate, is obliged to be fundamentally wrong, and violative of the rule of checks and balances characteristic of our organic law.

A legislature in Georgia may under present conditions, vote appropriations, and make the defense thereto before the people that it is not costing them one cent of additional taxes. This defense satisfies the people generally for they have not understood the situation.

While it is true the tax rate is not raised, but only for the reason it *cannot*, for it already stands in the very highest notch which the Constitution of the State permits.

Appropriations are voted and the Governor and Treasurer are left to pay them, with not a cent of money with which to pay them. These appropriations become a debt, contrary to the Constitution. The remedy is to increase the volume of property and reduce the high tax rate now prevailing, so that each appropriation will necessarily reflect itself in the tax rate; and no Legislature will vote for an appropriation which could not be defended before the people at home. Georgia must change these present conditions or she is yet to face deeper humiliation.

Every man who loves his State should feel it his duty to come to the State's rescue. The knowledge has gone abroad that the State is not paying her debts. Some of the sister States deride Georgia's situation, and chide her boast of being the "Empire State of the South."

We are obliged to concede, in the light of the record, that we have not been as considerate of the State's good name as the State deserves. There is no good excuse we can offer for placing the State in this embarrassment; but we have permitted it more from lack of information than lack of loyalty.

The people of Georgia now understand the situation; and the people of Georgia now give notice to Georgia's Sister States that Georgia will, on the 20th of December, 1914, pay her debts and claim again her rightful place in the Sisterhood, redeemed.

**END OF
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